

Message Text

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ORIGIN EA-12

INFO OCT-01 ISO-00 EUR-12 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 SIG-03 DOE-15 SOE-02 DODE-00 PA-01
/124 R

DRAFTED BY:EA/EP:WRWARNE:HCOCHRAN:STMCP
APPROVED BY:EA:EHEGINBOTHAM
EA/TIMBS:RFRITTS(DRAFT)
EA/K:BPORTER(DRAFT)
EA/PHL:JSARTORIUS(DRAFT)
AID/ASIA/DP:DCOHEN(DRAFT)
EA/ROC:WLUNDY(DRAFT)
AID/IIA:JSHERRY(DRAFT)
EUR/RPE:ECASEY (DRAFT)
EB/IFD/ODF:ELOLLIS
TREASURY:MRYSS
EA/EP:AGEBER

-----098964 241138Z /14/14

R 232112Z MAY 78
FM SECSTATE WASHDC
TO AMEMBASSY TOKYO
AMEMBASSY BANGKOK
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
AMEMBASSY RANGOON
AMEMBASSY SINGAPORE
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E.O. 11652: N/A

TAGS: EGEN, EFIN, EAID, ETRD, ASEAN, JA

SUBJECT: JAPANESE AID UNTYING AND YEN CREDITS

REFS: A. STATE 106845 B. TOKYO 5222 C. STATE 66698

1. A KEY ELEMENT IN OUR ONGOING ECONOMIC POLICY DISCUSSIONS WITH THE GOJ IS JAPAN'S EFFORT TO REDUCE ITS CURRENT ACCOUNT SURPLUS. REFTEL A REPORTED GOJ DECISION TO UNTIE AID IN PRINCIPLE BEGINNING MARCH 15, 1978 IN THE FOLLOWING CATEGORIES:

A. CONCESSIONAL COMMODITY LOANS,

B. CO-FINANCED LOANS,

C. TWO-STEP LOANS, AND

D. OTHER LOANS IF REQUESTED BY RECIPIENT GOVERNMENTS.

2. AS NOTED IN REF A, THE GOJ PRINCIPLES STATE: QTE IF THE RECIPIENT GOVERNMENTS PREFER TO RECEIVED JAPANESE LOANS ON A TIED OR LDC UNTIED BASIS, THE GOVERNMENT OF JAPAN WILL ACCOMMODATE THEIR PREFERENCES. UNQTE. THERE IS A GOOD

DEAL OF ROOM FOR INTERPRETATION REGARDING THE APPLICATION OF THE GUIDELINES. THE PROVISIO THAT THE BORROWER HAS TO LIMITED OFFICIAL USE

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EXPRESS A STRONG DESIRE FOR UNTIED CREDITS IS PARTICULARLY BOTHERSOME. ON SOME PREVIOUS OCCASIONS WHEN WE QUERIED THE JAPANESE ON AID UNTYING WE WERE TOLD THAT THE BORROWER WISHED TO PROCURE IN JAPAN.

3. PRIME MINISTER FUKUDA ANNOUNCED DURING HIS MAY 2-3 VISIT TO WASHINGTON THAT JAPAN WOULD DOUBLE ITS AID IN THREE YEARS INSTEAD OF FIVE. (JAPAN ANNOUNCED AT THE JUNE 1977 CIEC THAT IT WOULD DOUBLE ITS OFFICIAL DEVELOPMENT ASSISTANCE IN FIVE YEARS, I.E. ITS ODA DISBURSEMENTS IN JAPAN FISCAL 1982 (APRIL 82-MARCH 83) WOULD BE DOUBLE THAT OF JAPAN FISCAL 1977). THUS, WE BELIEVE THAT NOW JAPAN'S ODA JFY 1980 WILL BE DOUBLE THAT OF JFY 1977, WHICH WAS ABOUT 1.2 BILLION DOLLARS (AT 1 DOLLAR EQUALLING 225 YEN). (FOR TOKYO: PLEASE CONFIRM OR CLARIFY THIS POINT OF DOUBLING IN THREE YEARS).

4. PURPOSE OF UNTYING AND INCREASING AID IS TO HELP REDUCE JAPAN'S LARGE CURRENT ACCOUNT SURPLUS. WE IMAGINE THAT GOJ WILL WANT TO TAKE THE OPPORTUNITY AT VARIOUS MEETINGS, SUCH AS THE DAC REVIEW, TO PROVIDE INFORMATION ON THE RESULTS OF ITS POLICY OF GENERAL UNTYING. WE WOULD LIKE TO KNOW HOW THE GOJ IS CARRYING OUT THESE PRINCIPLES

AND HOW JAPANESE AID RECIPIENTS ARE RESPONDING TO THEM.

5. FOR TOKYO: TOKYO SHOULD ADD ACTION ADDRESSEES TO ITS REGULAR MONTHLY REPORT OF JAPANESE AID GRANTED. FORMAT SHOULD BE SHIFTED FROM AIRGRAM TO TELEGRAM AND THERE SHOULD BE A SECTION ON EXPECTED LOAN/PROJECTS UNDER CONSIDERATION WHICH HAVE NOT BEEN DECIDED, BUT OFFER OPPORTUNITIES FOR NON-JAPANESE SUPPLIERS. AID RECIPIENT COUNTRIES WILL LIKELY ISSUE ACTUAL TENDERS, BUT GOJ WILL BE PRIME SOURCE OF FORTHCOMING AID PROJECT PLANS. EMBASSY MIGHT CONSIDER A PERIODIC CIRCULAR, UNCLASSIFIED MESSAGE TO ALL EA POSTS REPORTING ON FORTHCOMING TENDERS FOR MAJOR AID PROJECTS. AT THIS TIME WE DO NOT KNOW IF SUCH INFORMATION IS READILY AVAILABLE BUT WOULD APPRECIATE LIMITED OFFICIAL USE

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EMBASSY LOOKING INTO THE POSSIBILITY AND ADVISING US ON THE POSSIBILITY.

6. FOR OTHER ACTION ADDRESSEES:

A. EMBASSIES SHOULD URGE HOST GOVERNMENT TO PRESS GOJ TO UNTIE COMPLETELY ITS AID. SUCH ACTION WOULD BE BENEFICIAL TO AID RECEIVING COUNTRY AS WELL AS THE UNITED STATES AND JAPAN. THE FORMER WOULD BENEFIT FROM COMPETITION BETWEEN

SUPPLIER COUNTRIES; THE UNITED STATES WOULD BENEFIT FROM ANY EXPORTS THEY COULD OBTAIN UNDER THIS PROGRAM; AND JAPAN WOULD BENEFIT FROM THE GOOD WILL AND REDUCED SURPLUS RESULTING FROM SUCH ACTION AND BASICALLY THE REASONS FOR THE JAPANESE POLICY ANNOUNCEMENT. WE WOULD APPRECIATE RECEIVING REPORTS ON HOW HOST GOVERNMENTS RESPOND TO THIS REPRESENTATION.

B. EMBASSIES MIGHT CONSIDER SETTING UP PROGRAMS TO COORDINATE WITH HOST GOVERNMENT AUTHORITIES (E.G. AID MANAGEMENT AGENCY AND DEVELOPMENT BANK, IF APPROPRIATE), WITH LOCAL JAPANESE EMBASSY, AND WITH LOCAL BUSINESS COMMUNITY. SUCH A PROGRAM MIGHT INCLUDE CONTACTS WITH LOCAL US-AFFILIATED FIRMS SO THAT THEY WOULD BE AWARE OF OPPORTUNITIES FOR JAPANESE CONCESSIONARY FINANCING IN HOST COUNTRY AND, THROUGH REGULAR EMBASSY TOKYO REPORTING, OF OPPORTUNITIES IN NEIGHBORING COUNTRIES. FYI: SEVERAL US FIRMS HAVE ALREADY ASKED DEPARTMENT FOR BACKGROUND INFORMATION ON QTE LDC-UNTIED UNQTE JAPANESE AID WHICH MAY PROVIDE BUSINESS OPPORTUNITIES FOR THE US FIRMS' ASIAN-BASED AFFILIATES. END FYI. WE WOULD APPRECIATE EMBASSY COMMENTS REGARDING FEASIBILITY OF SETTING UP SUCH A PROMOTIONAL PROGRAM. LIMITED OFFICIAL USE

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7. AS DESCRIBED IN REF B, THE JAPANESE HAVE EARMARKED THE EQUIVALENT OF 680 MILLION DOLLARS IN YEN CREDITS TO VARIOUS SEA COUNTRIES. THE GOJ SEEMS TO BE PURSUING A CONTRADICTORY POLICY REGARDING THE USE OF THESE CREDITS. ON THE ONE HAND, THE GOJ SAYS THESE CREDITS ARE NOT TO RESTRAIN THE RECIPIENTS FROM OBTAINING GOODS AND SERVICES FROM THE LOWEST COST SOURCE. ON THE OTHER HAND, THEY MAY BE USED FOR PROCUREMENT ONLY IN JAPAN. THE GOJ DOES NOT CONSIDER THEM TO BE TIED BECAUSE THE RECIPIENT COUNTRY CAN SELECT FOR THE USE OF THESE CREDITS THOSE PROJECTS FOR WHICH IT CAN COMPETITIVELY PROCURE IN JAPAN. BUT, OBVIOUSLY THIS SYSTEM CONTAINS A STRONG BIAS IN FAVOR OF PROCUREMENT FROM JAPAN.

8. WE JUST HAD A REPORT OF MITI MINISTER KOMOTO'S VISIT TO KUALA LUMPUR WHERE HE CONCLUDED NEGOTIATIONS ON THE USE OF 85 MILLION DOLLARS YEN CREDIT AND ANNOUNCED EARLY NEGOTIATIONS OF A NEW CREDIT LINE IN THE SAME AMOUNT. THERE IS NO INDICATION OF ANY CHANGES IN THIS CREDIT SYSTEM. IN ADDITION SO FAR WE HAVE NOT FOUND AN INSTANCE OF JAPANESE BILATERAL AID WHICH RESULTS IN NON-JAPANESE PROCUREMENT, BUT, OF COURSE, IT MAY BE TOO EARLY TO EXPECT SUCH A CHANGE.

9. EMBASSIES MIGHT INQUIRE HOW THE RECIPIENTS PLAN TO USE THESE CREDITS. AS PROJECTS ARE DEVELOPED AND THESE CREDITS ARE DRAWN DOWN, WE WOULD APPRECIATE PERIODIC REPORTS CONCERNING THE TYPE OF PROCUREMENT AND THE WAY THAT THESE CREDITS ARE HANDLED. CHRISTOPHER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, POLICIES, DATA, CREDIT, CURRENCY CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE131106
Document Source: CORE
Document Unique ID: 00
Drafter: EA/EP:WRWARNE:HCOCHRAN:STMCP
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780221-0433
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780527/aaaaawyc.tel
Line Count: 205
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 1d7d4698-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 STATE 106845
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2598501
Secure: OPEN
Status: NATIVE
Subject: JAPANESE AID UNTYING AND YEN CREDITS
TAGS: EGEN, EFIN, EAID, ETRD, JA, ASEAN
To: TOKYO BANGKOK MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/1d7d4698-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014